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Japan's Growing Economic Ties with Latin America

SUMMARY

Japan's economic presence in Latin America is expanding rapidly as the Japanese move to diversify their overseas markets and develop outlets for investment capital. The Japanese have already established a small foothold in many Latin American markets, and sales to the region should reach US \$2 billion this year, or roughly double the 1970 level.

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To help boost sales and assure a stable supply of raw materials from the region, Japan is providing relatively large amounts of capital to Latin American countries. Since the start of 1972, private and government sources have made available about \$2 billion in medium-term and long-term loans to finance purchases of Japanese goods.

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Much of Japan's economic interest in Latin America is concentrated in Brazil and Mexico. Most investments made to date are in Brazil, and one-third of Japan's trade with Latin America involves Brazil and Mexico. The Japanese, however, also are expanding their trade and economic ties in other countries such as Peru, Colombia, Argentina, and even Cuba. By and large, the Latin American countries have encouraged Japan to expand its economic involvement in the area, in some instances viewing it as a way to reduce their still very heavy dependence on the United States.

DISCUSSION

Japan's Presence in Latin America

1. Japan's economic position in Latin America is changing rapidly. During most of the period after World War II, involvement in the region was negligible, largely because Japanese firms were concentrating on

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boosting sales to other markets while viewing Latin America primarily as a source of raw materials. By the mid-1960s, Japanese sales to Latin America amounted to only about \$400 million¹ annually, while imports totaled about \$700 million. Investment in the region was practically non-existent.

2. Since the mid-1960s, trade and investment have expanded sharply. Two-way trade nearly tripled by 1972 to about \$3 billion as Japanese firms moved aggressively to exploit marketing opportunities in the region. For many Latin American countries, Japan is now the second largest foreign supplier after the United States. Japan has also emerged as an important supplier of capital to the region. By 1970, Tokyo had issued approvals on new investments in Latin America totaling \$500 million, and by early 1973 the cumulative level of approvals reached nearly \$1 billion. Although still dwarfed by the US investment stake, Japanese investment in the region's mining and manufacturing sectors has become considerable within the past several years.

3. To encourage Japanese investment in Latin America, as well as in other less developed regions, Tokyo has established a special loan fund to help cover investment risks. The government also has expanded its small aid program to the region and has sent special trade missions to help develop new sales opportunities. Most Latin American countries have encouraged Japan's growing interest in the region, viewing it as a way to reduce their relative dependence on the United States. Since the beginning of 1972, at least a dozen Latin American economic missions have visited Japan.

Market Penetration

4. Japan's sales effort in Latin America has been increasingly successful. During 1966-70, exports to the region increased an average of 20% annually, and subsequently the pace accelerated to an average of about 25%. These gains have about doubled Japan's share of the market since 1965, to 9% last year. Sales reached \$1.5 billion in 1972 - exceeded only by those of the United States and West Germany. Sales this year are expected to approach \$2 billion.

5. Japan has concentrated its marketing effort on a few key countries, notably Brazil, Venezuela, and Mexico (see Table 1). These countries' programs to develop such basic industries as iron and steel and petrochemicals have opened up major new marketing opportunities. (For the composition of Japanese exports, see Table 2.) Sales to Brazil - by far the largest market -- more than doubled between 1970 and 1972,

1. All trade data in this publication exclude ship exports to Panama under flag of convenience registration.

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Chief, St/P/C/OER

1 Attachment

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By: *M. h*
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